

## **PARA BANKING AND FINANCIAL SERVICES PROVIDED BY BANKS**

**Para banking and Financial Services** refer to those activities carried out by a bank, which are **other than their normal day-to-day** activities like deposits, withdrawals, etc.

### **PARA-BANKING AND FINANCIAL SERVICES**

#### **SPONSORING OF AN INFRASTRUCTURE DEBT FUND - IDF**

- **Infrastructure Debt Funds (IDFs)** can be set up either as a **Mutual Fund (IDF-MF)** or a **Non-Banking Finance Company (IDF-NBFC)**.
- Bank shall **not contribute more than 49%** of the equity of Infrastructure Debt Fund, set up as a Non-Banking Finance Company (IDF-NBFC).
- A **bank contributing less than 30%** of the equity of IDF-NBFC shall **not be a sponsor**.

#### **EQUIPMENT LEASING AND HIRE PURCHASE BUSINESS**

Banks can **form subsidiary companies** for undertaking equipment leasing and hire purchase, with prior approval of RBI.

**EQUIPMENT LEASING SERVICES THROUGH SUBSIDIARIES:** The subsidiaries formed should **primarily be engaged in leasing activities**.

#### **EQUIPMENT LEASING SERVICES AS DEPARTMENTAL ACTIVITIES**

- **Prior approval of the RBI is not necessary** for undertaking these activities departmentally.
- **report to the RBI about the nature of these activities are taken up.**

#### **PRUDENTIAL GUIDELINES**

- Equipment leasing require **skilled personnel and adequate infrastructural facilities**.

- These activities should be **treated on par with loans and advances.**
- Exposure ceilings with regard to **single borrower 15%** of the bank's capital funds and **20 % to infrastructure projects**
- For **borrower group 40%** of the bank's capital funds and **50% provided to infrastructure projects.**
- **Their exposure** to each of these activities should **not exceed 10% of total advances.**

### **FACTORING SERVICES**

- Factoring is a type of finance in which a business **would sell its accounts receivable (invoices) to a third party** to meet its short-term liquidity needs.
- The aggregate of **equity investment in factoring subsidiaries** and factoring companies **shall not exceed 10% of the bank's paid-up capital and reserves.**

### **PRIMARY DEALERSHIP BUSINESS**

- A primary dealer (PD) is an RBI registered entity that is **authorised in buying and selling government securities.**
- Undertaking the PD business **through a subsidiary**, a bank should be **registered as an NBFC with RBI.**
- undertaking the PD business **through department** a bank should be registered with RBI (internal Debt Management Department)

### **UNDERWRITING ACTIVITIES**

Underwriting of issues of shares, debentures and bonds may be undertaken, **either departmentally** or through a **merchant banking subsidiary.**

### **MUTUAL FUND BUSINESS**

- **Banks** desirous of undertaking **mutual fund business should obtain prior approval of RBI**, for setting up such funds.
- Banks can **act as agent of Mutual Fund companies**, for selling of MF services, as part of their **third-party products' activities.**

### **CONDITIONS**

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- Banks should **forward the investors' applications for purchase/sale** of MF units to the mutual funds/ Registrars/ transfer agents.
- Banks **should not acquire units of mutual funds** from the secondary market.
- Banks should **not buy back units of mutual funds from their customers.**
- **Banks can extend any credit facility** to individuals against the **security of units of Mutual Funds** according to instructions of **RBI.**
- Banks should ensure that their **own investments and investments made by/ belonging to their customers are kept distinct from each other**

### **INSURANCE BUSINESS**

No bank shall undertake insurance business **with risk participation. except through a subsidiary/ joint venture** set up for the purpose.

#### **ELIGIBILITY CRITERIA FOR SUBSIDIARY OR VENTURE**

- It has a **net worth of 1000 crore.**
- Its level of net **non-performing assets is not more than 3 per cent**
- It has made a **net profit in the preceding three financial years**

### **PENSION FUND MANAGEMENT**

Banks may undertake the business of pension fund management **only through a subsidiary set up for the purpose.**

#### **ELIGIBILITY CRITERIA**

- Its net worth shall not be less than **7,500 crores after investing in the equity of such company.**
- Its level of net non-performing assets is **not more than 3%**
- It has made a **net profit** in the preceding **3 financial years.**

### **INVESTMENT ADVISORY SERVICES – IAS**

Banks may undertake the business of investment advisory services (IAS), **through a separate subsidiary**

### **PORTFOLIO MANAGEMENT SERVICES – PMS**

Banks shall not start or introduce any **new portfolio management service (PMS)** or **set up a subsidiary for the purpose**, without the **approval of RBI**.

- A bank already undertaking PMS departmentally as on the date of these Directions **shall ensure compliance**.
- PMS shall be in the nature of investment consultancy/management, **for a fee, entirely at the customer's risk**.
- The funds shall not be accepted for **portfolio management for a period less than one year**.
- Funds accepted for **portfolio management from the clients**, shall not be **entrusted to another bank for management**.

**REFERRAL SERVICES** means the **arrangement between a bank and a 3<sup>rd</sup> party financial product provider** for referring the customers of the bank to the third-party financial product provider.

### **RETAILING OF GOVERNMENT SECURITIES**

Banks are permitted to undertake the **business of retailing of Government Securities with non-bank clients**.

### **LIMITS ON INVESTMENTS**

- Equity investment in a **subsidiary company, or a financial services company**, not being a subsidiary, individually, shall **not exceed 10% of the bank's paid-up share capital and reserves**
- The aggregate of equity investment in **factoring subsidiaries** and factoring companies **shall not exceed 10%** of the bank's paid-up capital and reserves.

### **RESTRICTIONS ON EXPOSURE**

- Banks are **not allowed to hold more than 10% in the equity of a deposit taking NBFC**.
- Banks should **not invest more than 10%** of the unit capital of a **Real Estate Investment Trust/ Infrastructure Investment Trust**.

### **RELATIONSHIP WITH SUBSIDIARIES**

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- A parent/ sponsor bank shall **maintain an "arm's length"** relationship with the subsidiary.
- The **Board of Directors of the parent/sponsor bank** shall **review the working of subsidiaries, at periodical intervals.**
- The parent/ sponsor bank shall **undertake inspection/ audit of the books of accounts** of the subsidiaries, at periodical intervals.
- The **subsidiary shall not set up another subsidiary**, undertake any new business, without prior approval of RBI.
- The subsidiary shall **not make any portfolio investment** in another existing company with an intention of acquiring controlling interest, **without prior approval of the Reserve Bank.**